Standard Summary Project Fiche for Transition Facility

1. BASIC INFORMATION

1.1. CRIS Number: 2004/016-764.02.01

1.2. Title: Strengthening Public Finance Management

1.3. Sector: Public Finance

1.4. Location: Slovak Republic

2. OBJECTIVES

2.1. Overall Objectives:

To improve macro-economic performance and fiscal transparency and achieve compliance with certain obligations arising from the *acquis communautaire*, related to EC budget, financial relations and reporting duties.

2.2. Project purpose:

1. Improve public finance accounting and the fiscal and financial management reporting systems;
2. Improve the functioning of the State Treasury;
3. Strengthen the monitoring and evaluation system of public funds, including EU funds;

2.3. Comprehensive Monitoring Report references

**Economic issues**
- Additional public expenditure reforms …..still need to be further specified, appropriately sequenced and implemented.
- ….guarantees and subsidies should be thoroughly screened.
- The development of a medium-term fiscal framework ….. is still lagging behind.

**Ability to assume the obligations of membership**

**Economic and monetary union**
- EMU policy also includes …adherence to the stability and growth pact ….

**Statistics**
- Slovakia needs to improve the quality and timeliness of data in … national accounts….

**Financial and budgetary provisions**
- For calculation of the GNI-based resource, further fine-tuning is needed by Slovakia to improve the quality and reliability of the national accounts and GNI calculations in line with ESA95, including their exhaustiveness.
3. DESCRIPTION

3.1. Background and Justification:

Background

The Slovak Government committed in its Program Declaration to decrease the general budget deficit of public finances to 3 % of GDP by the end of its electoral period (2006). Apart from increasing the sustainability of public finances, this would also speed up nominal and real convergence, thereby fulfilling two preconditions for participating in the EMU.

In order to achieve this, it was decided to engage into a complex reform of the public finance system, including reforms in the areas of public expenditures (healthcare, pension, social security, and education system), revenues (taxes) and public finance management, which should also enable to decrease taxes and social security contributions.

The reforms in public finance management have been structured in such a way that they will also support macroeconomic stability, the overall stability of the economic environment and better financing of state functions as achieved by political consensus.

Since 2000 Slovakia has made significant progress in improving the management of public finances, mainly through:

- Cancellation of nine state funds and their incorporation into budget chapters;
- Improvement of financial audit by adopting the Law on Financial Control and Internal Audit;
- Creation of a methodology for preparation of the medium term fiscal outlook and the pre-accession economic program based on EU requirements;
- Elaboration and implementation of a methodology for transformation of reports developed on cash base to ESA 95 (EU) and GFS 2001 (IMF) methodology (accrual principal);
- Limitation of the possibility to create uncontrolled deficits by local administration and social insurance funds;
- Conceptual improvements in budget preparation by strengthening the importance of the budget envelope, improvements in linking budgetary units during budget preparation and implementation of program budgeting (result oriented budgeting).

It was felt, however, that the changes introduced were rather ad-hoc, isolated, without common links and more of a technical and methodological character, without creating the necessary institutional framework. Therefore, based on best practice and principles, as formulated by OECD and IMF, combined with Slovak experiences, a Strategy of Public Finance Management Reform, focusing on three interdependent areas, was adopted by the Government in April 2003:

1. Strengthening of public finance transparency, this is to be achieved, inter alia, by:
   i. improving budgeting and fiscal, economic and social policy by introducing a medium-term timeframe and fiscal outlook;
   ii. improving budgeting and reporting, including analysis of transfer to accrual accounting;
   iii. setting up a separate State Treasury (ST) and Agency for Debt and Liquidity Management (DLMA);
   iv. investigating the initial status of public finances, including the extent of liabilities and claims based on risk evaluation;
   v. introducing a monitoring and management system for non-budgetary and quasi-fiscal state activities;
   vi. strengthening financial control and implementation of performance based control;
vii. unifying transparency principles throughout all elements of public finances.

2. Strengthening of strategic planning for allocation of resources and transition to result oriented budgeting through the introduction of program budgeting, which should enable to:
   i. support the managerial approach and an increase of responsibility to management of budget chapters;
   ii. introduce the concepts of efficiency, effectiveness and purpose in budget preparation, execution and evaluation;
   iii. optimize the planning for and using of resources from European funds;
   iv. create a basis for transfer to multi-annual budgeting;
   v. improve communication between government and citizens.

3. Establishment of a stable medium term public finance framework, by:
   i. creating a system for formulation and approval of priorities of economic policy on political decision level;
   ii. creating a governmental macroeconomic forecasting system, producing reliable and conservative estimates of macroeconomic developments and ensuring linkage of macroeconomic data with public finance parameters;
   iii. setting up medium-term fiscal outlook system in line with requirements for EU reporting and the governmental and budgetary chapters decision making process;
   iv. elaborating and implementing a multi-annual budget methodology.

One of the major activities, to date, was the preparation of new budgetary rules laws for the public sector and for self governments (regional government and municipalities).

In addition to these measures, an audit of the Ministry of Finance (MOF) was performed, which resulted in a major restructuring and a reduction of the staff from 850 to 600, in December 2003. A number of new managers, some of them recruited from outside the MOF, have been appointed.

Justification

Meanwhile, important requirements with regard to the acquis are still outstanding, notably in areas where horizontal governance and horizontal cooperation is requested – as characteristic for the financial and budget sphere and also in particular in relation to financial flows to and from the EU.

Project 1
During the implementation of the reform program, it was discovered that certain key data, which are used as inputs for important fiscal statistics and reports, both for national and EU reporting purposes (e.g. the annual budget deficit), are not always produced in a timely, transparent and reliable fashion, because of flaws in the public finance accounting and fiscal reporting system.

These statistics and reports include, inter alia, ESA95 reporting of general government expenditures; the Excessive Deficit Procedure; the Fiscal Surveillance Procedure; the own resources system; State Aid; the GNI-based contribution to the EC budget and the State Debt.

The public finance accounting system also has an impact on the Structural Funds, Cohesion Funds and Guarantee Fund operations.
Several technical assistance projects reported these shortcomings (see 3.2, Linked Activities):

- ‘… uncompleted competence framework and divisions of tasks beyond primary and secondary legislation; absence of a Treasury general ledger system and a chart of accounts; lacking features of a more integrated financial management information system’ (from: final report, November 2003, of ‘TA for the Project of State Treasury System ..’, SR0003.01);
- ‘… There was clear evidence ….. that the knowledge of at least the Slovak national accountants on the various legal and procedural aspects in the context of GDP/GNI calculation for the 4th own resource were incomplete’ (from: draft final report, April 2004, ‘Design of Budgetary System for Contributions to/from the EU Budget …’, TL P01-19);
- ‘… lack of data, inter alia on net financial debt and assets and baseline historical data according to GFS (IMF), SNA (OECD) or ESA95 standards (from: inception report PFMR project ‘Diagnostics and design of a monitoring system for contingent liabilities’, March 2004).

The OECD Economic Survey of the Slovak Republic 2004 noted that “fully consolidated government accounts in either GFS or ESA95 methodology covering the recent multi yearly period on a consistent basis are needed”. Also, the IMF and the EC Services (Eurostat, DG ECFIN) noted serious discrepancies in the compilation of relevant statistics.

Therefore, it is necessary to thoroughly investigate and revise the methodology, classifications and procedures for data collection for public finance accounting, fiscal reporting and financial management reporting systems, in order to improve their quality.

Project 2
A key player in this field is the State Treasury (ST), which was created in 2003 and still is in the phase of institution building. As from 1.1.2004, it manages the execution of the budgets of the MOF and several smaller budget chapters, and the inclusion of all other budget chapters is planned to be finalized by 1.7.2004. The financial planning activity concentrates nearly all financial information of public administration and it will be a key source for statistical information, not only at internal level but also for Eurostat. Thus, it is important to increase the quality of the information and the capacity for information management, complying at the same time with the EU Acquis. The evaluation conducted by EMS has revealed the need for follow up assistance. The technical assistance given to the ST from the Phare programme over the past years covered core Treasury functions, but did not relate to tasks wherever it involved budget and financial relations between EU and Slovakia and specific provisions of the Acquis.

Project 3
Until now, the attention in the result-oriented budgeting component of the public finance reform program has been geared towards preparation of the budget, but the emphasis is shifting towards the execution of the budget, for which monitoring and evaluation are important tools. Strategic studies and drafting of methodologies with regard to EU and public funds are under way, but it is imperative that the monitoring and evaluation system will be embedded in a sustainable framework, thus contributing to the effectiveness and efficiency of budget preparation and execution.
3.2. Linked activities:

**Phare projects**

**SR 9704.01.01 Legal Support and Strategy Support to the State Treasury** (€ 0.5 mln) led to the overall strategy, described a full set of regulations and created a conceptual model for the pilot sides. The project finished in November 2000.

**SR0003.01. TA for the Project of State Treasury System at the Ministry of Finance of the Slovak Republic** (€ 2.3 mln). The project had the objective to provide strategic advice to the ST and the DLMA (Debt and Liquidity Management Agency), which consisted of consultations, preparation of documents, training and seminars and study tours for the staff involved. It finished in December 2003; it was broken down into nine blocks, the main results of which were:

- Financial planning – recommendations for breakdown, execution and updating of financial plans on the basis of best practice; simulation of forecasts of revenues and expenditures based on cash flows.
- Cash management – clarification and extending the multi-level expenditure process in budget execution; daily cash-flow projections of outstanding debt and money market investments and information on deals concluded.
- Medium term financial framework – preparation of methodologies, impact and involvement of treasury operations, competence framework, tasks on various levels, responsibilities and relations between different levels of fiscal indicators and data.
- Debt management – internal procedures, review of procedures for borrowing instruments, back office methodology, new instruments for risk management – procedures and manual, support in trading with debt instruments, auction procedures, regulations for primary market for decentralised government securities, marketing and investors communication, proposals for strategy and investors database.
- Expenditure management control – analysis of expenditure framework and expenditure patterns, improving ST’s cash flow forecasts for expenditures, relation to global forecasts on the basis of MOF models; web based training facility.
- Financial management accounting and reporting – proposals for extended reporting, linkage with tax and customs accounting to obtain aggregated data on ongoing payables and receivables; solutions for banking reconciliation for payment data and balances.
- State payment system – alignment of notification of credit advices and payment orders sending, bank keeping Nostro accounts, workflow for DLMA with connection to ST payment system BIPS, cut-off time for standard clean payment (foreign payment system); relevant mechanisms and definitions.
- Sound financial management and control – design of a monitoring tool.
- Management integration and co-ordination – liaison with the World Bank Public Finance Reform Project; training needs analysis.

**TL P01-19 Design of Budgetary System for Contributions to/from the EU Budget after Accession** (€ 0.1 mln) - the overall objective of the project was to design and support the functioning of the EU "Own Resources System" in the Slovak Republic, and to determine its financial contributions to the EU budget. It includes the verification of the calculation of public expenditure estimates in line with the additionality principle according to the Acquis until 2006.

**SR 2003.004.995.01.04/02 Strategy for Information systems for Public Finance Management Reform** (€ 0.2 mln) – drafting a strategy to improve information systems for
public finance management, supporting policies, procedures, methodologies and plans (project start in May 2004).

**SR 2003.004.995.01.04/03 Review of Information Systems in the Revenue, Treasury, Budget and Accounting areas** (€ 0.2 mln) – review the present tax, customs, treasury, debt management and liquidity, budget and accounting business models and information systems and to provide recommendations for improvement, in particular with regard to linkages and integration (project starts in May 2004).

**SR 2002/000.610-02 UIBF Development of National Strategy for Evaluation of EU funded projects** (€ 0.15 mln) – development of a national strategy for evaluation of EU funded projects with possible integration of national co-financing funds (project started in April 2004). The project is part of the UIBF 2002 envelope and provides technical assistance to the Aid Coordination Unit of the Governmental Office. This project deals with EU funds only, while the following one deals with all public funds. Coordination between these two projects is already taking place.

**SR 2003.004.995.01.04/04 Capacity Building for Evaluation of the Budget of the Public Administration** (€ 0.2 mln) – establishment of an evaluation structure for public funds, harmonised with the system for evaluation of EU funds, through drafting an evaluation strategy, further elaborating methodologies and assisting with implementing them (project starts in June 2004).

**Other projects**

**Public Finance Management Reform Project (2003-2006) – financed by a € 5 mln loan from the World Bank** - the project supports introduction of multi-year program budgeting (€ 3 mln), strengthening of macroeconomic analysis and management (€ 0.8 mln) and specific aspects covered by the State Treasury and the DLMA (€ 1.2 mln), including, inter alia, the following modules:

- Development of a training system for State Treasury clients (€ 0.5 mln).
- Diagnostics and design of a monitoring system for contingent liabilities (€ 0.15 mln).
- Training for State Treasury and DLMA (€ 0.2 mln) – based on training needs analysis from project SR0003.01 and in coordination with training provided under project nr 2 of this Project Fiche.
- Diagnostics on public finance accounting and road map to accrual system (€ 0.1 mln) – the planned results include an analysis of the present cash based public finance accounting system and a proposal for a migration plan to extend public finance accounting to accrual accounting.

**3.3 Results:**

3.3.1 Result 1 – Migration plan to extend public finance accounting to accrual accounting implemented; adequate fiscal and financial management reporting systems developed, tested and implemented.
Agreed form of accrual accounting in place, including, inter alia, assessment of the current public finance accounting system, review, test and implementation of migration plan to extend cash based accounting system to agreed form of accrual accounting, draft amendments to primary and secondary accounting legislation, draft relevant methodology, procedures, operational guidelines, regulations and manuals and trained MOF, ST, DLMA, Tax and Customs Administration staff;

Report on existing fiscal and financial management reporting systems, including needs analysis, taking into account ESA95, GFS and SNA standards and assessment of current systems;

Proposals for new fiscal and financial management reporting systems, including, inter alia, competence framework, relevant EU and national reporting requirements;

New fiscal and financial management reporting systems tested and implemented;

Draft relevant procedures, operational guidelines and regulations for fiscal and financial management reporting systems;

MOF, ST, DLMA, Tax and Customs Administrations staff trained in the use of new fiscal reporting and financial management reporting systems and the underlying accounting procedures.

3.3.2 Result 2: Staff of the State Treasury applies rules and procedures for budget and financial relations in line with the acquis

Regarding the support to financial management, financial planning and ex-ante financial control linked to EU requirements or standards, the following sub-results are expected:

- Staff of the ST is trained and familiar with the EU acquis in the domains concerned (e.g. Financial Planning/Financial Control, Own Resources, State Aid, ESA 95);
- Rules and procedures of the new ST take into account requirements for financial transactions related to EU budget and financial flows;
- Necessary changes of support systems (IT) have been identified and proceedings defined to implement required changes.

3.3.3 Result 3 – Strategies and methodologies for monitoring and evaluation of public and EU funds updated and sustainable training capacity for public and private sector evaluation specialists in place

- Updated strategy and methodologies for monitoring of public funds, including EU funds;
- Updated strategy and methodologies for ex-ante-, interim- and ex-post evaluation of public funds, including EU funds;
- Training system for public and private sector monitoring and evaluation specialists in place;  
- At least 10 ex-ante and 9 ex-post evaluations of program budgets performed.

3.4 Activities:

3.4.1 for Result 1

- Review and implement migration strategy to extend public finance accounting to accrual accounting, including, inter alia:
Review of migration strategy, taking into account, inter alia, relevant national and EU reporting and IT requirements, competence framework, status of IT systems, human resources and required budget;
- Review of primary and secondary legislation;
- Review of relevant reports of project Review of Information Systems in the Revenue, Treasury, Budget and Accounting areas;
- Review of other relevant reports of the PFMR program;
- Preparation of methodology, procedures, operational guidelines and manuals;
- Testing of agreed accrual accounting system;
- Rolling out of agreed accrual accounting system;
- Training of MOF, ST, DLMA, Tax and Customs Administration staff;

- Analyse existing fiscal and financial management reporting systems, including, inter alia:
  - Preparation of needs analysis, taking into account ESA95, GFS and SNA standards;
  - Include in needs analysis requirements for registering and analysing contingent liabilities, hidden debts, state assets, public investments and participation in public enterprises, including fiscal, financial, legal and governance aspects and the assessment of fiscal risks;
- Review of primary and secondary legislation;
- Review of relevant reports of project State Treasury System at the Ministry of Finance of the Slovak Republic;
- Review of relevant reports of project Review of Information Systems in the Revenue, Treasury, Budget and Accounting areas;
- Review of final report of project Strategy for Information Systems for Public Finance Management Reform;
- Review of other relevant reports of the PFMR program;
- Prepare assessment of current systems of fiscal reporting and financial management reporting in the MOF, ST and DLMA, taking into account, inter alia, competence framework, status of IT systems and human resources;

- Draft proposals for new fiscal reporting and financial management reporting systems, taking into account, inter alia, relevant EU and national reporting and IT requirements, competence framework, human resources and required budget;
- Prepare migration strategy for transfer to new fiscal reporting and financial management reporting systems;
- Test and assist with implementing new fiscal reporting and financial management reporting systems;
- Assist with setting up and training specialised departments for registering and analysing contingent liabilities, hidden debts, state assets, public investments and participation in public enterprises, dealing with fiscal, financial, legal and governance aspects and the assessment of fiscal risks, including drafting of competence framework and task descriptions and assisting with identification of these assets and liabilities;
- Draft relevant methodologies, procedures, manuals, operational guidelines and regulations;
- Train MOF, ST, DLMA, Tax and Customs Administrations staff in the use of new fiscal and financial management reporting systems and the underlying accounting procedures;
- Work closely with other advisers providing assistance under the PFMR program, to ensure that the proposals are fully consistent with and link to the overall PFMR program.

The total number of (very specialised and high level) expert months planned for this project is 75 man/months spread over 2 years. The project would require experts with international (OECD,
IMF, EU) experience in public finance accounting, fiscal reporting, financial management reporting systems and training.

The project deals with all Sections in the Ministry of Finance (including Budget, Financial Control, Audit, Fiscal Policy, Accounting, Reporting) and its Agencies (Tax and Customs Administrations, Treasury, Debt and Liquidity Management Agency) and is fundamental for their operations. For comparison, similar projects in other OECD countries required many more inputs and took up to 5 years to be implemented. Because of the experience with restructuring projects and the substantial investments in related IT systems already made in Slovakia in the past years, it is estimated that substantial synergies can be achieved and that the inputs and the timeframe can be reduced to two years.

The activities would be split as follows:

<table>
<thead>
<tr>
<th>Activities</th>
<th>Number of experts</th>
<th>Estimated time allocation man/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Needs analysis, reviews of documentation, assessment of current systems</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Drafting proposals for new systems, migration strategies, legislation, methodologies, standards, procedures etc.</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>Testing and implementing new systems and setting up new departments</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>Train relevant staff (150-200 persons, various different courses)</td>
<td>2</td>
<td>10</td>
</tr>
</tbody>
</table>

The pool of experts would consist of:

4 short term experts of Category I having masters degree in economics or business administration and working experience in financial management information systems, public finance accounting and/or fiscal reporting;

2 short term experts of Category I having masters degree in economics or business administration and working experience in financial sector migration projects;

2 short term experts of Category I and II respectively having masters degree in economics, informatics or other relevant fields and experience in informatics;

2 short term experts of Category I and II having masters degree in economics or business administration or other relevant fields and working experience in public finance and/or financial management reporting training.

3.4.2. for Result 2

- Implement training program to be identified on the basis of the Training Needs Analysis – for direct and indirect target groups (selected clients of the Treasury and staff of MOF, Tax and Customs);
- Training - Financial Planning: management of information resources, management of information flows, cash flow forecasts, preparation of financial plan, updating and
execution of financial plan. These actions should involve the staff of the Financial Planning Division;

- Preparation of part of manual for all Treasury operations regarding directly or indirectly EU budget and financial transactions involving the ST system;
- Identification of changes and implementation plan for IT support and communication concept.

The total input of a team of short-term experts is within these activities 10 man/months.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Number of experts</th>
<th>Estimated time allocation man/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement training program</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Training - Financial Planning</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Preparation of part of manual for all Treasury operations</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>regarding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification of changes and implementation plan for IT support</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>State Treasury operations supervision</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

The pool of experts would consist of:

1 short term expert of Category I having appropriate university education and working experience in methodology, psychology and techniques of training and Training Needs Analysis;

2 short term experts of Category I having masters degree in economics or business administration and working experience in financial planning/public finance;

1 short term expert of Category I having masters degree in economics or business administration and working experience in financial transactions related to EU budget and financial flows;

1 short term expert of Category I with background and experience in informatics and working experience in building the state treasury system;

1 short term expert of Category having masters degree in economics or business administration and working experience in entire state treasury operation.

3.4.3. for Result 3

- Review strategy and methodologies for monitoring of public funds, including EU funds;
- Review strategy and methodologies for ex-ante-, interim- and ex-post evaluation of public funds, including EU funds;
- Set up an external training system for monitoring and evaluation, including, inter alia, a training needs analysis, logistical, human resource and budgetary aspects;
- Develop curriculum for training system for monitoring and evaluation;
- Deliver pilot trainings in monitoring and evaluation;
- Supervise execution of at least 10 ex-ante evaluations of 2007 budgets of budget chapters and 9 ex-post evaluations of 2003 budgets of budget chapters which already had a program budget structure in 2003.
The split of activities for this project (25 man/months) is planned as follows:

<table>
<thead>
<tr>
<th>Activities</th>
<th>Estimated allocation time man/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review and updating of strategies and methodologies for monitoring and evaluation</td>
<td>4</td>
</tr>
<tr>
<td>Setting up external training system, including curriculum</td>
<td>9</td>
</tr>
<tr>
<td>Prepare and deliver pilot trainings</td>
<td>2</td>
</tr>
<tr>
<td>Supervision of 10 ex-ante and 9 ex-post evaluations</td>
<td>10</td>
</tr>
</tbody>
</table>

The pool of experts would consist of:

3 short term expert (1 of Category I and 2 of Category II) having appropriate education background in economics or business administration and working experience in monitoring and evaluation of programmes/projects in the area of public finance;

1 short term expert of Category II having appropriate education background and working experience in training in evaluation and logframe analysis;

This project would complement project SR 2003.004.995.01.04/04 Capacity Building for Evaluation of the Budget of the Public Administration, which only devotes approx. 5 man months of inputs to drafting a public fund evaluation strategy and related (ex-ante, interim and ex-post) methodologies (as compared to 9 man months for only drafting the National Strategy for Evaluation of EU funded projects, project SR 2003.004.995.01.04/01), i.e. it is clear that the outputs of that project need to be updated in order to set up a sustainable (monitoring & evaluation) system. The TOR for TF project will be carefully drafted so that the outputs of the above project will serve as the inputs for the TF project.

3.5 Lessons learned

In these projects the findings and recommendations of previous projects, executed under the aegis of both the EC and the World Bank, as well as recommendations of international institutions, including the EC (Eurostat, DG ECFIN), IMF, OECD and SIGMA, have been taken into account. The same applies for the Interim Evaluation Report No.: N/SK/INT/03.047 elaborated by EMS Slovakia as of 17 July 2003 stating that: “any sustainability of the project SK 0003.01 will need to be strengthened by further assistance, building on the partial results achieved by the present assistance”.

To comply with the EMS recommendation the present project has been drafted focusing on areas where there is an imminent need of assistance as well as on areas expanding the already achieved results.

4. INSTITUTIONAL FRAMEWORK

The final beneficiaries will be: project 1 - the MOF, ST and DLMA; project 2 - the ST; project 3 – the MOF. The counterparts for the projects will be the Accounting Section of the MOF (project 1),
the ST (project 2) and the Budget Section of the MOF (project 3). All three projects will be deemed to be part of the Public Finance Management Reform (PFMR) program. The PFMR program, which includes the WB supported PFMR project and other relevant projects, is headed by a Steering Committee, chaired by a State Secretary of the MOF and including all Directors-General and Directors of relevant sectors, and the PFMR coordination unit.

However, a separate Steering Committee for the project will be set up. It will be consisting of representatives of the Ministry of Finance and other beneficiaries, representative of the PFMR coordination unit, contractor's representatives and CFCU as an observer. The Steering Committee will convene its session at the latest two weeks after submission of Inception Report and then quarterly; if the situation requires so, then on ad hoc basis. The Steering Committee will approve reports (Inception Report, Quarterly Reports and Final Report), discuss progress of the project in view of its specific objectives and would recommend changes to the contractor if needed.

5. DETAILED BUDGET

<table>
<thead>
<tr>
<th>TF</th>
<th>Support</th>
<th>Total Transition Facility (I+IB)</th>
<th>National Co-financing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project 1</td>
<td>0</td>
<td>1.5</td>
<td>1.5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Project 2</td>
<td>0</td>
<td>0.2</td>
<td>0.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Project 3</td>
<td>0</td>
<td>0.5</td>
<td>0.5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>0</td>
<td>2.2</td>
<td>2.2</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

6. IMPLEMENTATION ARRANGEMENTS

a. Implementing Agency

Ministry of Finance of the Slovak Republic
Central Finance and Contracting Unit
Mrs. Sylvia Czúczurová, Director
Ph.: +421 2 5958 2546
Fax: +421 2 5958 2559
sczuczurova@mfsr.sk
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Contact persons
Project 1:
Ministry of Finance
Accounting Department
Mrs Katarina Kaszasová, Director-General
Ph.: +421 2 5958 3215
e-mail: kkaszasova@mfsr.sk
Štefanovičova 5, 817 82 Bratislava, Slovak Republic

Project 2:
State Treasury
b. Twinning
Not applicable

c. Non-standard aspects
Not applicable

d. Contracts
3 contracts – in the amount of respectively € 1,500,000, € 200,000 and € 500,000.

7. IMPLEMENTATION SCHEDULE

a. Start of tendering/call for proposals

1st quarter 2005

b. Start of project activity

2nd quarter 2005

c. Project completion

2nd quarter 2007

8. SUSTAINABILITY

The final beneficiary commits itself to providing sufficient number of staff for project implementation. Employees of the respective departments, ST and DMLA at disposal in the time of the project implementation will take active part in all activities.

9. CONDITIONALITY AND SEQUENCING

The implementation of projects 1 and 3 is partially dependent on outputs from other projects, which are all planned to be finalised before these projects start:
• The project “Diagnostics on public accounting and road map to accrual system” will finish in the first quarter of 2005;
• The project “Review of information systems in the revenue, treasury, budget and accounting areas” will end in April 2005;
• The project “Capacity building for evaluation of the budget of the public administration” is to be completed in May 2005.
## TRANSISTION FACILITY LOG FRAME – Annex 1

### LOGFRAME PLANNING MATRIX FOR Project

<table>
<thead>
<tr>
<th>Programme name and number</th>
<th>Contracting period expires: 15.12.06</th>
<th>Disbursement period expires: 15.12.07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Public Finance Management</td>
<td>Total budget: 2.2 million €</td>
<td>TF budget: 2.2 million €</td>
</tr>
</tbody>
</table>

### Overall objective

To improve macro-economic performance and fiscal transparency and achieve compliance with certain obligations arising from the acquis communautaire, related to EC budget, financial relations and reporting duties.

#### Objectively Verifiable Indicators

- Timely and reliable reports and statistics on macro-economic performance

#### Sources of Verification

- MOF, SOSR, Eurostat, EC, IMF, OECD reports

### Project purpose

1. Improve public finance accounting and the fiscal and financial management reporting systems;
2. Improve the functioning of the State Treasury;
3. Strengthen the monitoring and evaluation system of public funds, including EU funds

#### Objectively Verifiable Indicators

- Accrual accounting system, adequate fiscal and financial management reports
- ST producing adequate reports on EU funds
- External M&E training system in place

#### Sources of Verification

- MOF, EC, IMF, OECD reports
- ST, MOF, EC
- MOF, EC

#### Assumptions

- Outputs from other PFMR projects available
- ST staff trained adequately
- Other (EC and PFMR) evaluation projects finished

### Results

**Result 1 – Migration plan to extend public finance accounting to accrual accounting implemented; adequate fiscal and financial management reporting systems developed, tested and implemented.**

- Agreed form of accrual accounting in place, including, inter alia, methodology, procedures, guidelines, manuals and trained MOF, ST, DLMA, Tax and Customs Administration staff;
- Report on existing fiscal and financial management reporting systems;
- Proposals for new fiscal and financial management reporting system

#### Objectively Verifiable Indicators

- Documented accounting and reporting procedures, fiscal reports and financial management reporting system

#### Sources of Verification

- MOF, ST, DLMA, PFMR coordination unit

#### Assumptions

- Adequately trained staff and IT support available
- Agreed form of accrual accounting incorporates ESA 95 requirements
management reporting systems, including, inter alia, competence framework, relevant EU and national reporting requirements;
- New fiscal and financial management reporting systems tested and implemented;
- Draft relevant procedures, operational guidelines and regulations;
- MOF, ST, DLMA, Tax and Customs Administrations staff trained in the use of new fiscal and financial management reporting systems and the underlying accounting procedures;

<table>
<thead>
<tr>
<th>Result 2 – Staff of the State Treasury applies rules and procedures for budget and financial relations with EU in line with the acquis</th>
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<tbody>
<tr>
<td>Staff of the ST is trained and familiar with the EU acquis in the domains concerned (e.g. Financial Planning/Financial Control, Own Resources, State Aid, ESA 95);</td>
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<tr>
<td>Rules and procedures of the new ST take into account requirements for financial transactions related to EU budget and financial flows;</td>
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<td>Necessary changes of support systems (IT) have been identified and proceedings defined to implement required changes.</td>
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</tbody>
</table>

|  | Updated forms and procedures and templates used by the relevant services, Adapted IT support |
|  | Standing orders, Manuals Training materials Changes of organisation chart List of participants in training measures IT applications |
|  | Sufficient human resources available for qualification |

<table>
<thead>
<tr>
<th>Result 3 - Strategies and methodologies for monitoring and evaluation of public and EU funds updated and sustainable training capacity for public and private sector evaluation specialists in place.</th>
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<tbody>
<tr>
<td>Updated strategy and methodologies for monitoring of public funds, including EU funds;</td>
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<tr>
<td>Updated strategy and methodologies for ex-ante-, interim- and ex-post evaluation of public funds, including EU funds;</td>
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</tbody>
</table>

|  | Methodologies for monitoring, ex-ante - , interim - and ex-post evaluation |
|  | European Evaluation Society, EC, MOF |
|  | External organisation implementing the training system identified and contracted |
- Training system for public and private sector monitoring and evaluation specialists in place;
- At least 9 ex-ante and 9 ex-post evaluations of program budgets performed.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
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</thead>
</table>
| **Activity 1**  
Review and implement migration strategy to extend public finance accounting to accrual accounting, including, inter alia, preparation of methodology, procedures, guidelines, manuals and training of MOF, ST, DLMA, Tax and Customs Administration staff;  
Analyse existing fiscal and financial management reporting systems, including, inter alia, competence framework;  
Draft proposals for new fiscal and financial management reporting systems, including, inter alia, competence framework, relevant EU and national reporting and IT requirements;  
Test and implement new fiscal and financial management reporting systems;  
Draft relevant procedures, operational guidelines and regulations;  
Train MOF, ST, DLMA, Tax and Customs Administrations staff in the use of new fiscal and financial management reporting systems and the underlying accounting procedures. | Tendered contract of 1.5 mln € | |
| **Activity 2**  
- Implement training program to be identified on the basis of the Training Needs Analysis – for direct and indirect target groups (selected clients of the ST and staff of MOF, Tax and Customs);  
- Training - Financial Planning: management of information resources, management of | Tendered contract of 200,000 € | |
information flows, cash flow forecasts, preparation of financial plan, updating and execution of financial plan. These actions should involve the staff of the Financial Planning Division;
- Preparation of part of manual for all ST operations regarding directly or indirectly EU budget and financial transactions involving the ST system;
- Identification of changes and implementation plan for IT support and communication concept.

<table>
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<th>Activity 3</th>
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<tr>
<td>Review strategy and methodologies for monitoring of public funds, including EU funds; Review strategy and methodologies for ex-ante-, interim- and ex-post evaluation of public funds, including EU funds; Set up an external training system for monitoring and evaluation, including, inter alia, a training needs analysis, logistical, human resource and budgetary aspects; Develop curriculum for training system for monitoring and evaluation; Deliver pilot trainings in monitoring and evaluation; Supervise execution of at least 10 ex-ante evaluations of 2007 budgets of budget chapters and 9 ex-post evaluations of budgets of budget chapters, which already had a program budget structure in 2003.</td>
</tr>
</tbody>
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| Tendered contract of 500,000 € |
TIME IMPLEMENTATION CHART – Annex 2

Project number: 2004/016-764.02.01

Project title: Strengthening Public Finance Management

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CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE – Annex 3

CRIS number: 2004/016-764.02.01

Project title: Strengthening Public Finance Management

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